

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05  
CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00  
FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01  
L-03 H-02 PA-02 PRS-01 /110 W  
----- 082554 /43

R 211638Z DEC 76  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 4220  
DEPARTMENT TREASURY  
INFO AMEMBASSY BERN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 02 BONN 21432

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A  
TAGS: EFIN, GW  
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING DECEMBER  
20

1. FOREIGN EXCHANGE MARKETS:  
THE DOLLAR WEAKENED SUBSTANTIALLY IN GERMAN FOREIGN  
EXCHANGE MARKETS DURING THE PAST WEEK - DROPPING BY  
MORE THAN 1.5 PERCENT IN VALUE AGAINST THE DEUTSCHEMARK  
IN THE PERIOD DECEMBER 14 TO DECEMBER 21. DEALERS  
CITE LOWER INTEREST RATES IN THE U.S. AND THE OIL PRICE  
ANNOUNCEMENT AS FACTORS IN THIS DECLINE. FRANKFURT SPOT  
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AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS DURING THE  
REPORTING PERIOD:

FORWARD DOLLARS			
SPOT DOLLARS (IN PCT. PER ANNUM)			
OPENING	FIXING	CLOSING	ONE-MONTH THREE-MOS

DEC 14	2.3970	2.3972	2.3932	0.65	-0.05
15	2.3945	2.3953	2.3960	0.50	-0.17
16	2.3925	2.3924	2.3865	-0.10	-0.37
17	2.3865	2.3890	2.3870	-0.10	-0.37
20	2.3850	2.3744	2.3685	0.35	-0.17
21	2.3670	2.3607	N.A.	N.A.	N.A.

## 2. MONEY MARKET:

MONEY MARKET CONDITIONS IN THE FRG REMAINED TIGHT DURING THE PAST WEEK ALTHOUGH A SLIGHT DOWNWARD TREND IN CALL MONEY RATES MAY PORTEND SOME EASING DURING THE NEXT WEEK AND INTO THE NEW YEAR. PAST PATTERNS SHOW, HOWEVER, THAT THE FINAL DAY OR TWO OF A YEAR CAN PRODUCE EXTREMELY ERRATIC MOVEMENTS IN CALL MONEY RATES AS FIRMS AND BANKS STRIVE TO IMPROVE THEIR LIQUID ASSET POSITIONS FOR WINDOW DRESSING IN THEIR ANNUAL REPORTS. CURRENTLY, TAX PAYMENTS AND A HIGH LEVEL OF CURRENCY IN CIRCULATION HAVE COMBINED TO KEEP THE CALL MONEY RATE ABOVE THE 4.5 PERCENT LOMBARD LENDING RATE. ONE AND THREE MONTH RATES INCREASED marginally DURING THE REPORTING PERIOD. FRANKFURT INTERBANK MONEY RATES DEVELOPED AS FOLLOWS:

### CALL MONEY ONE-MONTH THREE-MONTH

DEC 14	4.8-5.0	4.90	4.80
15	4.9-5.1	4.90	4.80
16	4.7-4.9	5.00	4.90
17	4.6-4.8	5.00	4.90

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20	4.6-4.8	5.00	4.90
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## 3. BUNDESBANK FOREIGN POSITION:

IN THE PERIOD DECEMBER 8-15 THE BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM 0.5 BILLION TO DM 92.8 BILLION. FOREIGN EXCHANGE HOLDINGS INCREASED BY DM 446 MILLION WHILE SDR HOLDINGS DECLINED BY DM 14 MILLION AND FOREIGN LIABILITIES ROSE BY ABOUT DM 360 MILLION. THE LATTER INCREASE INCLUDED A DM 195 MILLION INCREASE IN BUNDESBANK LIABILITIES TO THE EUROPEAN FUND FOR MONETARY COOPERATION WHILE BUNDESBANK CREDITS TO MONETARY AUTHORITIES OTHER THAN THE EUROPEAN MONETARY FUND DECLINED BY DM 576 MILLION. THE BUNDESBANK DID NOT INDICATE WHICH FOREIGN MONETARY AUTHORITY MADE THIS REPAYMENT.

## 4. BANK LIQUIDITY:

DURING THE PERIOD DECEMBER 8-15 BANK LIQUIDITY INCREASED BY DM 1.4 BILLION. FACTORS INCREASING LIQUIDITY

WERE DECLINES OF DM 2.3 BILLION IN THE BANKS' HOLDINGS  
OF RESERVES AT THE BUNDESBANK, AND OF DM 0.9 BILLION  
IN CURRENCY IN CIRCULATION. OTHER, NON-SPECIFIED,  
FACTORS INCREASED LIQUIDITY BY DM 1.3 BILLION, NET.

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TO SECSTATE WASHDC 4221  
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LIQUIDITY WAS REDUCED BY A DM 2.3 BILLION INCREASE IN  
OFFICIAL NET ASSETS HELD AT THE BUNDESBANK REFLECTING  
TAX PAYMENTS, THE ABOVE MENTIONED DECLINE IN THE BUNDES-  
BANK'S FOREIGN POSITION, AND DM 0.3 BILLION OF SALES  
OF OPEN MARKET PAPER BY THE BUNDESBANK. THE BANKS USED  
THE INCREASE IN LIQUIDITY TO REDUCE REDISCOUNT BORROW-  
INGS BY DM 0.2 BILLION TO DM 14.0 BILLION, AND LOMB-  
ARD BORROWINGS BY DM 1.2 BILLION TO DM 6.2 BILLION.  
THE LATTER AMOUNT IS STILL VERY HIGH AS COMPARED WITH  
PRACTICALLY ZERO ON NOVEMBER 15, 1976.

5. BOND MARKET:

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ON THE MARKET FOR DOMESTIC BONDS PRICES REMAINED RATHER STABLE. ACCORDING TO THE PRESS AVERAGE CURRENT YIELDS OF DOMESTIC BONDS BROKEN DOWN BY REMAINING MATURITY ARE AS FOLLOWS:

REMAINING MATURITY

(YEARS) 1 3 5 7 9 10

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DEC 20 5.20 6.70 7.05 7.30 7.45 7.50

DEC 11 5.20 6.65 7.10 7.30 7.50 7.55

ACCORDING TO THE GERMAN FINANCIAL PRESS AT THE DECEMBER 16 MEETING OF THE CENTRAL BANK COUNCIL THE BUNDESBANK AND FEDERAL GOVERNMENT REACHED AGREEMENT ON THE NEXT FEDERAL LOAN TO BE OFFERED AT THE YEAR-END. THE LOAN WILL REPORTEDLY AMOUNT TO DM 1 BILLION AND WILL PROBABLY BE OFFERED IN TWO TRANCHES CARRYING MATURITIES OF 6 AND 10 YEARS. AN ADDITIONAL TRANCHE WILL BE PROVIDED FOR THE BUNDESBANK FOR PRICE SUPPORTING OPERATIONS.

6. FOREIGN DM BONDS:

ON THE MARKET FOR FOREIGN DM BONDS THE OESTERREICHISCHE ELEKTRIZITAETSWIRTSCHAFTS A.G. PLACED PRIVATELY DM 50 MILLION OF BONDS (COUPON 7 PERCENT, ISSUE PRICE 100 1/2, MATURITY 7 YEARS, YIELDS TO MATURITY 6.91 PERCENT). THE JAPANESE HITACHI CABLE ALSO PLACED PRIVATELY DM 30 MILLION OF BONDS (COUPON 7 PERCENT, ISSUE PRICE 100, MATURITY 5 YEARS). CURRENTLY THE FOLLOWING TWO BOND ISSUES OF FOREIGN BORROWERS ARE BEING OFFERED: INTERNATIONAL AMERICAN DEVELOPMENT BANK (DM 100 MILLION, COUPON 7 PERCENT, ISSUE PRICE 99 1/2, MATURITY 10 YEARS WITH REPAYMENT TO BEGIN AFTER 5 YEARS); AND THE BRITISH ICI INTERNATIONAL FINANCE LTD. (DM 100 MILLION, COUPON 7 1/2 PERCENT, ISSUE PRICE 100, MATURITY 10 YEARS WITH REPAYMENT TO BEGIN AFTER 7 YEARS).

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THE IBRD IS REPORTEDLY NEGOTIATING THE ISSUE OF A DM 250 MILLION LOAN. THE COUPON IS EXPECTED TO BE 7 PERCENT, THE MATURITY 10 YEARS. THE KINGDOM OF NORWAY ALSO PLANS TO OFFER A LOAN OF DM 200 MILLION. CONDITIONS MAY BE A COUPON OF 6 1/2 PERCENT, AN ISSUE

PRICE OF 100, AND A MATURITY OF 5 YEARS.

7. ECONOMIC INDICATORS RELEASED THIS WEEK:  
ACCORDING TO THE IFO ECONOMIC RESEARCH INSTITUTE,  
CAPACITY UTILIZATION IN THE MANUFACTURING SECTOR,  
ON A SEASONALLY-ADJUSTED BASIS, CAME TO 82.6 PERCENT  
IN OCTOBER, VERSUS 82.2 PERCENT IN APRIL AND 81.6  
PERCENT IN JULY.  
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## Message Attributes

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**Draft Date:** 21 DEC 1976  
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**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 JAN 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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Margaret P. Grafeld  
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